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Galaxy Semi-Conductor Holdings Limited

銀河半導體控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 00527)

**INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2009**

GROUP FINANCIAL HIGHLIGHTS

- The Group's turnover dropped by approximately 8% to approximately RMB178.25 million (2008: approximately RMB193.65 million).
- The Group's gross profit increased by approximately 10% to approximately RMB37.53 million (2008: approximately RMB34.01 million).
- The Group's profit attributable to equity shareholders dropped by approximately 29% to approximately RMB10.31 million (2008: approximately RMB14.57 million).
- Consolidated net asset value increased to approximately RMB278.92 million (2008: approximately RMB268.35 million).
- Earnings per share was approximately RMB0.026 (2008: approximately RMB0.036).
- The Directors do not recommend the payment of an interim dividend for the period ended 30 June 2009.

RESULTS

The board (the “Board”) of directors (the “Directors”) of Galaxy Semi-Conductor Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2009 together with the comparative figures for the last corresponding period as follows:

Condensed Consolidated Income Statement

For the six months ended 30 June 2009

		For the six months ended 30 June	
		2009	2008
	Note	RMB'000 (unaudited)	RMB'000 (unaudited)
Turnover	3	178,245	193,647
Cost of sales		<u>(140,717)</u>	<u>(159,638)</u>
Gross profit		<u>37,528</u>	<u>34,009</u>
Other revenue		517	4,393
Distribution costs		(5,541)	(6,277)
Administrative expenses		<u>(18,470)</u>	<u>(10,879)</u>
Profit from operations		14,034	21,246
Finance Costs		<u>(3,324)</u>	<u>(5,191)</u>
Profit before taxation	4	10,710	16,055
Income tax	5	<u>(400)</u>	<u>(1,482)</u>
Profit for the period		10,310	14,573
Attributable to:			
Equity shareholders of the Company		10,310	14,573
Minority interests		<u>—</u>	<u>—</u>
Profit for the period		<u><u>10,310</u></u>	<u><u>14,573</u></u>
Earnings per share	7		
— Basic and diluted (RMB)		0.026	0.036

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	For the six months ended 30 June	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Profit for the period	10,310	14,573
Other comprehensive income		
Exchange differences on translation of financial statements of subsidiaries	260	1,424
Other comprehensive income for the period (net of tax)	260	1,424
Total comprehensive income for the period	10,570	15,997
Total comprehensive income attributable to:		
Equity shareholders of the Company	10,570	15,997

Condensed Consolidated Statement of Financial Position

As at 30 June 2009

		As at 30 June 2009 <i>RMB'000</i> <i>(unaudited)</i>	As at 31 December 2008 <i>RMB'000</i> <i>(audited)</i>
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	8	155,633	155,978
Prepaid lease payments		24,295	24,477
Deferred tax assets		1,633	1,633
		<u>181,561</u>	<u>182,088</u>
Current assets			
Inventories		79,723	106,167
Trade and other receivables	9	173,977	146,014
Prepaid lease payments		524	524
Pledge bank deposits		7,369	3,780
Deposits with bank (maturity over 3 months)		11,000	5,600
Cash and cash equivalents		49,019	43,746
		<u>321,612</u>	<u>305,831</u>
Current liabilities			
Interest-bearing borrowings	10	119,577	125,870
Trade and other payables	11	100,939	79,538
Current taxation		1,127	968
		<u>221,643</u>	<u>206,376</u>
Net current assets		99,969	99,455
Total assets less current liabilities		281,530	281,543
Non-current liabilities			
Interest-bearing borrowings		—	10,583
Deferred tax liabilities		2,615	2,615
NET ASSETS		<u>278,915</u>	<u>268,345</u>
CAPITAL AND RESERVES			
Share capital	12	4,080	4,080
Reserves		274,835	264,265
TOTAL EQUITY		<u>278,915</u>	<u>268,345</u>

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity shareholders of the Company							Total equity
	Share capital	Share premium	Special reserve	Statutory reserves	Other reserve	Translation reserve	Retained profits	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Balance at 31 December 2007								
(audited)	4,080	192,197	(82,562)	7,696	31,477	(399)	95,217	247,706
Profit for the period	—	—	—	—	—	—	14,573	14,573
Exchange differences on translation of financial statements of subsidiaries	—	—	—	—	—	1,424	—	1,424
Balance at 30 June 2008 (unaudited)	4,080	192,197	(82,562)	7,696	31,477	1,025	109,790	263,703
Profit for the period	—	—	—	—	—	—	4,140	4,140
Transfer to reserves	—	—	—	1,838	—	—	(1,838)	—
Exchange differences on translation of financial statements of subsidiaries	—	—	—	—	—	502	—	502
Balance at 31 December 2008								
(audited)	4,080	192,197	(82,562)	9,534	31,477	1,527	112,092	268,345
Profit for the period	—	—	—	—	—	—	10,310	10,310
Exchange differences on translation of financial statements of subsidiaries	—	—	—	—	—	260	—	260
Balance at 30 June 2009 (unaudited)	4,080	192,197	(82,562)	9,534	31,477	1,787	122,402	278,915

Notes to the Condensed Financial Statements

1. Basis of preparation

The condensed interim financial information has been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and with Hong Kong Accounting Standard (“HKAS”) 34, Interim Financial Reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). These unaudited consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2008.

2. Accounting Policies

The condensed consolidated financial information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values or revalued amounts, as appropriate.

The accounting policies used in the condensed consolidated financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2008 except as described below.

In the current interim period, the Group has applied, for the first time, the following new standards, amendments and interpretations (“new HKFRSs”) issued by HKICPA which are effective for the Group’s financial year beginning on 1 January 2009.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendments)	Vesting Conditions and Cancellations
HKFRS 7 (Amendments)	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 and HKAS 39 (Amendments)	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008 except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 to HKAS 39

HKFRS 8 has no material impact on the Group’s financial statements. The Group does not present segment information because the Group’s chief executive management consider the Group operates within one segment and manage the Group as a whole.

The adoption of other new HKFRSs had no material effect on the results and financial position of the Group for the current or prior accounting periods except for the presentation requirements of HKAS 1 (Revised). Accordingly, no prior period adjustment has been required.

The Group has not early applied the new standards, amendments and interpretations that have been issued but are not yet effective. The Group is in the process of assessing the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs will have a significant impact on how its results of operations and financial position are prepared and presented.

3. Turnover

The principal activities of the Group are design, development, manufacturing and sales of diodes.

Turnover represents the sales value of goods sold to customers, net of value added tax and is after deduction of any sales, discounts and returns.

4. Profit before taxation

	For the six months ended 30 June	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Profit before taxation are stated net of:		
Director's emoluments (including retirement benefit plan contributions)	502	1,316
Other staff costs	22,689	23,771
Retirement benefit scheme contributions, (excluding Directors)	1,449	1,097
Total staff costs	24,640	26,184
Impairment loss on trade receivables	987	396
Amortisation of prepaid lease payments	182	184
Cost of inventories	140,717	159,638
Depreciation of property, plant and equipment	9,690	7,931
Loss of disposal of property, plant and equipment	1	53
and after crediting:		
Interest income	404	241

5. Income tax

	For the six months ended 30 June	
	2009	2008
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Taxation expenses include:		
PRC enterprise income tax	400	1,252
Deferred tax	—	230
Total	<u>400</u>	<u>1,482</u>

No provision of Hong Kong Profits Tax had been made as the Group's profit neither arises in, nor is derived from, Hong Kong for both periods.

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or British Virgin Islands.

Galaxy Electrical is recognised as high-technology companies and located in high-technology zone. According to the PRC tax regulations, Galaxy Electrical is entitled to a preferential tax rate of 15% in both periods.

Galaxy Semiconductor is recognised as enterprise with advanced technology and is entitled to a preferential tax rate of 15% in both periods.

Pursuant to the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises ("FEIT"), Galaxy Hi-New, Galaxy Technology and Galaxy Micro-Electronics are entitled to a tax holiday of a tax-free period for the first and second years and a 50% reduction in the income tax rate for the third to fifth years starting from the earlier of the year in which a taxable income is made after the offset of deductible losses incurred in prior years or 2008.

Galaxy Hi-New, Galaxy Technology and Galaxy Micro-Electronics are located in the coastal economic open zone and are entitled to a preferential income tax rate of 24% for both periods. Year 2008 is the second tax-free year for Galaxy Hi-New. The tax-free years for Galaxy Technology and Galaxy Micro-Electronics were applicable for 2008 and 2009 and therefore no income taxes were provided for in both periods. The applicable income tax rate of Galaxy Huanyu is 25% in 2008 and 2009 respectively.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC (the "new tax law") which has taken effect on 1 January 2008. As a result of the new tax law, higher income tax rate was reduced to 25% from 1 January 2008 and the preferential income tax rate will gradually increase to the standard rate of 25% over a five-year transition period after the enactment of the tax law. Except for Galaxy Huanyu, the applicable income tax rate to the Group's subsidiaries will gradually increase to 25% in the following 5 years.

6. Interim dividend

The Directors do not recommend the distribution of an interim dividend for the period ended 30 June 2009 (30 June 2008: Nil).

7. Earnings per share

	For the six months ended 30 June	
	2009	2008
	(unaudited)	(unaudited)
Profit attributable to equity shareholders of the Company (<i>RMB'000</i>)	10,310	14,573
Number of issued ordinary shares (<i>in '000 shares</i>)	400,000	400,000
Earnings per share (<i>RMB per share</i>)	0.026	0.036

The calculation of the basic earnings per share for the period ended 30 June 2009 is based on the profit attributable to equity shareholders of the Company of approximately RMB10,310,000 (30 June 2008: approximately RMB14,573,000) and the number of 400,000,000 issued shares for both periods.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the period.

8. Property, plant and equipment

For the period ended 30 June 2009, the Group acquired property, plant and equipment amounting to approximately RMB9,349,000 (30 June 2008: approximately RMB12,374,000).

9. Trade and other receivables

	As at 30 June 2009 <i>RMB'000</i> <i>(unaudited)</i>	As at 31 December 2008 <i>RMB'000</i> <i>(audited)</i>
Trade debtors	136,666	126,217
Less: allowance for doubtful debts	<u>(8,795)</u>	<u>(7,808)</u>
	127,871	118,409
Other receivables	3,621	2,761
Note receivables	35,487	18,542
Amount due from a director	<u>503</u>	<u>503</u>
Loans and receivables	167,482	140,215
Prepayment and deposit	<u>6,495</u>	<u>5,799</u>
	<u>173,977</u>	<u>146,014</u>

All of the trade and other receivables (including note receivables and amounts due from related parties) are expected to be recovered or recognised as expense within one year.

Included in trade and other receivables are trade debtors and bills receivable (net of allowance for doubtful debts) with the following aging analysis:

	As at 30 June 2009 <i>RMB'000</i> <i>(unaudited)</i>	As at 31 December 2008 <i>RMB'000</i> <i>(audited)</i>
Within three months	111,517	108,459
More than three months but within one year	14,370	9,950
More than one year	<u>1,984</u>	<u>—</u>
At 31 December	<u>127,871</u>	<u>118,409</u>

The Directors consider that the carrying amount of trade and other receivables approximates its fair value.

10. Interest-bearing borrowings

As at 30 June 2009, the amount of the Group's bank borrowings dropped to approximately RMB119,577,000 (31 December 2008: approximately RMB136,453,000), of which the secured bank borrowings amounting to RMB75,500,000 (31 December 2008: RMB46,500,000) which were secured by the buildings and the prepaid lease payment.

The Group's bank borrowings included a syndicated bank loan that, in March 2007, the Company entered into an agreement (the "Facility Agreement") with a syndicate of banks and financial institution. The successfully raised syndicated bank loans amounted to HK\$120,000,000 (a term loan facility of up to HK\$60,000,000 and a revolving loan facility of up to HK\$60,000,000). The Facility Agreement imposes obligations on the Company to ensure that (i) Mr. Yang Senmao and Mr. Xu Xiaoping jointly shall, directly or indirectly, own not less than 40% of all issued voting shares of the Company; and (ii) Mr. Yang Senmao shall remain as the Chairman and Managing Director of the Company and shall maintain management control of the Company. The term of the Facility Agreement is 36 months commencing from the date of signing of the Facility Agreement. The syndicated bank loan was used for general working capital and expansion of the Group's production.

11. Trade and other payables

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Trade payables	59,135	50,337
Note payables	22,610	4,600
Other payables	16,209	20,101
Advance from customers	2,696	4,211
Amounts due to related companies	289	289
	<u>100,939</u>	<u>79,538</u>

Included in trade and other payables are trade creditors with the following ageing analysis:

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Within three months	41,885	32,495
More than three months but within one year	12,312	16,140
More than one year	4,938	1,702
	<u>59,135</u>	<u>50,337</u>

All of the trade and other payables (including amounts due to related parties) are expected to be settled or recognised as income within one year or are repayable on demand.

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs.

The Directors consider that the carrying amount of trade and other payables approximates its fair value.

12. Share capital

Ordinary shares of a par value of HK\$0.01 each	Number of share	Amount HK\$	Amount RMB
Authorised:			
As at 31 December 2008 (audited) and 30 June 2009 (unaudited)	2,000,000,000	20,000,000	20,400,000
Issued and fully paid:			
As at 31 December 2008 (audited) and 30 June 2009 (unaudited)	400,000,000	4,000,000	4,080,000

13. Commitments

- (a) Capital commitments outstanding at 30 June 2009 not provided for in the financial statements were as follows:

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Contracted for	1,207	3,035

- (b) At 30 June 2009, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 30 June 2009 RMB'000 (unaudited)	As at 31 December 2008 RMB'000 (audited)
Within 1 year	95	81
After 1 year but within 5 years	—	45
	95	126

14. Pledge of assets

As at 30 June 2009, the land and buildings pledged to banks to secure general banking facilities granted to the Group amounted to approximately RMB28,863,000 (31 December 2008: approximately RMB25,798,000).

15. Related party transactions

During the period, the Group entered into the following transactions with related parties:

Names of related parties	Nature of transactions	For the six months ended 30 June	
		2009	2008
		<i>RMB'000</i> (<i>unaudited</i>)	<i>RMB'000</i> (<i>unaudited</i>)
Changzhou Lucky Star Electronic Equipment Co., Ltd.	Purchase of goods	—	1,223
Zhong Shan Company Ltd.	Operating lease	<u>63</u>	<u>59</u>

16. Subsequent events

Up to the approval date of these financial statements, there was no material subsequent event required to be disclosed by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

1. Financial Review

Galaxy Semi-Conductor Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) are leading diodes manufacturers and the largest rectifier manufacturer in the PRC and its operations are mainly conducted through its six PRC subsidiaries, namely Changzhou Galaxy Electrical Co., Ltd. (“Galaxy Electrical”), Changzhou Galaxy Semiconductor Co., Ltd. (“Galaxy Semiconductor”), Changzhou Galaxy Technology Developing Co., Ltd. (“Galaxy Technology”), Changzhou Galaxy Hi-New Electric Parts Co., Ltd. (“Galaxy Hi-New”), Changzhou Galaxy Century Micro-Electronics Co., Ltd. (“Galaxy Micro-Electronics”) and Taizhou Galaxy Huanyu Semi-conductor Co., Ltd. (“Galaxy Huanyu”).

The principal operations of Galaxy Electrical, Galaxy Hi-New and Galaxy Huanyu are design, development, manufacturing and sale of different types of diodes. The principal operations of Galaxy Micro-Electronics are design, development, manufacturing and sale of micro surface mount plastic-packaged components (including diodes and transistor) (“micro components”). Galaxy Semiconductor and Galaxy Technology are principally engaged in design, development, manufacturing and sale of diode wafers, which are mainly used by the Group for production of diodes.

Turnover

Turnover for the period ended 30 June 2009 was approximately RMB178,245,000. It represented a drop of approximately 7.95% when compared with the turnover of approximately RMB193,647,000 in the corresponding period of last year.

Analysis of the Group’s turnover by geographical region and by product type for the period ended 30 June 2009 is set out below:

By geographical region

	For the six months ended 30 June				Increase/ (decrease)	Change in percentage
	2009		2008			
	<i>RMB</i>		<i>RMB</i>		<i>RMB</i>	
	<i>million</i>	<i>%</i>	<i>million</i>	<i>%</i>	<i>million</i>	<i>%</i>
	<i>(unaudited)</i>		<i>(unaudited)</i>			
The PRC (<i>Note 1</i>)	144.54	81.09	158.15	81.67	(13.61)	(8.61)
Hong Kong and Korea (<i>Note 2</i>)	13.20	7.41	14.31	7.39	(1.11)	(7.76)
Other countries and regions (<i>Note 3</i>)	20.50	11.50	21.19	10.94	(0.69)	(3.26)
	<u>178.24</u>	<u>100.00</u>	<u>193.65</u>	<u>100.00</u>	<u>(15.41)</u>	<u>(7.95)</u>

Notes:

1. The PRC is the major market of the Group's products. The Group leverages on the advantages of its own brand-name and product quality, and as at 30 June 2009, the Group had over 1,300 customers in the PRC.
2. Hong Kong and Korea are the major overseas markets of the Group's products. The Group will strive to explore commercial opportunities through continuous participation in exhibitions in overseas regions such as Hong Kong and Korea.
3. Other countries and regions include Thailand, Taiwan, US, Italy, Canada, Germany, Spain and France. The Group is keeping efforts in exploring other overseas markets through commercial advertisements and participations in exhibitions.

Turnover by product type

	For the six months ended 30 June				Increase/ (decrease) RMB million	Change in percentage
	2009 RMB million (unaudited)	%	2008 RMB million (unaudited)	%		
Plastic packaged diodes (<i>Note 1</i>)	102.02	57.24	135.14	69.78	(33.12)	(24.51)
Glass packaged diodes	11.76	6.60	8.23	4.25	3.53	42.89
Bridge rectifiers	9.38	5.26	4.08	2.11	5.30	129.90
Surface mount device packaged diodes (<i>Note 2</i>)	54.93	30.82	46.19	23.85	8.74	18.92
Others (<i>Note 3</i>)	0.15	0.08	0.01	0.01	0.14	1,400
	<u>178.24</u>	<u>100.00</u>	<u>193.65</u>	<u>100.00</u>	<u>(15.41)</u>	<u>(7.95)</u>

Notes:

1. Plastic packaged diodes are the Group's major products. For the period ended 30 June 2009, both the sales and its proportion to total sales dropped because more sales efforts were allocated to boost the sales of other product types.
2. Surface mount device plastic packaged diodes are miniaturized diodes under key development by the Group. Through the ongoing expansion of its customer base and the increase in operation of Galaxy Micro-Electronics in the first half of 2009, the Group's sales of such products showed a growth momentum.
3. This refers to processing fees received from other factories in respect of the processing of mono-crystal silicon into wafers.

Cost of sales

Cost of sales mainly includes raw materials, wages, water, electricity, gas and other ancillary materials. Cost of sales for the period ended 30 June 2009 represented approximately 78.95% of the turnover, with a drop of approximately 3.5%, when compared with approximately 82.44% for the period ended 30 June 2008. The drop in the cost of sales included the drop in the cost of the Group's major raw materials and wages.

Gross profit

The Group's gross profit margin for the period ended 30 June 2009 was approximately 21.05%, with an increase of approximately 3.5%, when compared with approximately 17.56% for the period ended 30 June 2008. The increase in the gross profit margin was mainly because of the drop in the cost of sales as discussed above and increase in selling price of the Group's products.

Other revenue

Other revenue mainly comprised income generated by the sale of scrap material and subproducts (30 June 2009: approximately RMB150,000; 30 June 2008: approximately RMB340,000), interest income from bank deposits (30 June 2009: approximately RMB400,000; 30 June 2008: approximately RMB240,000), income recognized on write back of trade and other payables (30 June 2009: RMB nil; 30 June 2008: approximately RMB590,000) and the tax refund for reinvestment (30 June 2009: RMB nil; 30 June 2008: approximately RMB2,930,000). The drop in other revenue is mainly attributable to the drop in the tax refund for reinvestment and income recognized on write back of trade and other payables.

Distribution costs

Distribution costs mainly included commission expenses for sales and distribution activities, wages and salaries of sales personnel and transportation costs.

Distribution costs for the period ended 30 June 2009 represented approximately 3.11% of the total turnover, showing a slight decrease when compared with 3.24% for the period ended 30 June 2008.

Administration expenses

Administration expenses mainly included wages, salaries and welfare expenses, provisions for bad debt, depreciation expenses of office equipment and office and entertainment expenses.

Administration expenses for the period ended 30 June 2009 amounted to approximately RMB18,470,000, showing a significant increase when compared with approximately RMB10,880,000 for the period ended 30 June 2008.

Items contributing to the increase in administrative expenses are as follows: the exchange gain dropped by RMB3,820,000 (30 June 2009: approximately RMB(620,000); 30 June 2008: approximately RMB3,200,000). Salaries and benefits of management staff increased by approximately RMB3,310,000 (30 June 2009: approximately RMB9,700,000; 30 June 2008: approximately RMB6,390,000). With slight deterioration of credit procedure, the provision of bad debt written off also increased correspondingly by RMB590,000 (30 June 2009: approximately RMB990,000; 30 June 2008: approximately RMB400,000).

Office and entertainment expenses increased by RMB1,060,000 (30 June 2009: approximately RMB2,720,000; 30 June 2008: approximately RMB1,660,000).

However, the increase in the above expenses was partly offset by the decrease in the legal and other professional expenses by RMB450,000 which was mainly arising from a proposed acquisition engagement in 2008.

Finance costs

Finance costs refer to interest expenses for bank loans obtained by the Group.

Interest expenses for the period ended 30 June 2009 were approximately RMB3,320,000 while those for the period ended 30 June 2008 were approximately RMB5,190,000. The drop in finance costs was due to the drop in average bank loans and interest rate for financing operations for the period ended 30 June 2009 compared with that for the period ended 30 June 2008.

Taxation

The effective tax rate decreased from approximately 9.23% for the period ended 30 June 2008 to approximately 3.73% for the period ended 30 June 2009. The decrease in effective tax rate was mainly because more profit is generated from the Group companies which are entitled to tax-free period of PRC enterprise income tax than the Group companies subject to taxation compared with that for the period ended 30 June 2008.

Net profit for the period

The net profit margin for the period ended 30 June 2009 dropped compared with that for the period ended 30 June 2008.

Net current assets

The net current assets of the Group as at 30 June 2009 amounted to approximately RMB99,970,000 which approximated to that of the previous year (31 December 2008: approximately RMB99,460,000).

Liquidity and financing

The balances of deposits at banks as at 30 June 2009 and 31 December 2008 amounted to approximately RMB67,390,000 which comprised RMB60,800,000, USD250,000 and HK\$5,490,000 and approximately RMB53,130,000, respectively.

As at 30 June 2009, the total amount of borrowings by the Group was approximately RMB119,580,000 representing an decrease of approximately RMB16,880,000 compared with the balance outstanding as at 31 December 2008. All of the above borrowings was short term bank loan due within one year.

On 7 March 2007, the Company has entered into an agreement (the “Facility Agreement”) with a syndicate of banks and financial institution. As such, the Company has successfully taken out syndicated bank loans totaling HK\$120,000,000 (a term loan facility of up to HK\$60,000,000 and a revolving loan facility of up to HK\$60,000,000). The term of the Facility Agreement is 36 months commencing from the date of signing of the Facility Agreement. The Facility Agreement imposes obligations on the Company to ensure that (i) Mr. Yang Senmao and Mr. Xu Xiaoping jointly shall, directly or indirectly, own not less than 40% of all issued voting shares of the Company; and (ii) Mr. Yang Senmao shall remain as the Chairman and Managing Director of the Company and shall maintain management control of the Company.

The Group repaid its debt mainly through the steady recurrent cash-flows generated by its operations. The Group’s gearing ratio as at 30 June 2009 was 44.57% which was comparable to 45% as at 31 December 2008. That ratio was computed by dividing the Group’s total liabilities by total assets.

As at 30 June 2009, all of the Group’s borrowings were settled in Renminbi and Hong Kong dollars. Approximately 80% of the Group’s income was denominated in Renminbi and the remaining approximately 20% was denominated in Hong Kong dollars and US dollars. The borrowings of the Group were floating-rate loans, which amounted to RMB119,580,000. The Group had not engaged in any currency hedging facility for the period ended 30 June 2009 and up to the date of this announcement as the Board considered that the cost of any hedging facility would be higher than the potential risk of the costs incurred from currency fluctuation. The Group’s overall financial and funding policies were aimed to control foreign exchange fluctuations and interest rate fluctuations in individual transactions.

Pledge of assets

As at 30 June 2009, the Group had pledged assets comprising land and buildings with net book values of approximately RMB28,860,000 (31 December 2008: approximately RMB25,800,000), as security for the bank loans obtained by the Group.

Contingent liabilities

As at 30 June 2009 and as at 31 December 2008, the Group had no material contingent liabilities.

Employees

As at 30 June 2009, the Group had approximately 2,000 full-time employees in Hong Kong and the PRC, including 1,400 employees provided by employment agents, responsible for management, administration and production. For the period ended 30 June 2009, the relevant employee costs (including Directors' remuneration) were approximately RMB24,640,000 (30 June 2008: approximately RMB26,180,000). The Group ensured that the remuneration of employees was attractive and bonuses were given based on the performance of the employees in accordance with the general standards of the Group's salary policies.

2. Business Review

In the first half of the financial year 2009, the Group basically reversed the sliding trend of production and sales since the fourth quarter of last year, but the amount of order and sales situation have not yet recovered to the pre-financial crisis level. For the period ended 30 June 2009, turnover of the Group was approximately RMB178,245,000, representing a decrease of 7.95% compared to the same period of last year. Gross profit was approximately RMB37,528,000, representing an increase of 10.35% compared to the same period of last year. Gross profit margin increased by 3.49% compared to the same period of last year. Profit attributable to equity shareholders was approximately RMB10,310,000, representing a decrease of 29.25% compared to the same period of last year.

In response to changes in PRC and overseas market after the crisis, the Group proactively adjusted its marketing strategies, accelerated adjustment of product structure and customer groups, raised the weight of high gross profit products in sales, reinforced the control of sales credit, and ensured the speed of sales collection and safety of capital. In the first half year of 2009, the PRC remained as the biggest market in terms of geographical turnover, with its turnover accounting for 81.09% of the total turnover.

The Group further adjusted its production structure and speeded up the development and production of surface mount components. The sales amount of surface mount components was RMB54,930,000 in the first half year of 2009, accounting for 30.82% of the turnover of diodes and representing an increase of 18.92% compared to the same period of last year.

The Group proactively adjusted and improved the mechanism of its internal operating system, further reinforced company management and control and enhanced production efficiency and quality of products.

3. Outlook

The Directors are of the view that there will still be many uncertainties in macroeconomic development in the coming half year of 2009, and the market environment will still be severe, but the momentum of economic recovery is already formed. In face of the gradual comeback of business opportunities in the semi-conductor market, the Group will constantly strive for the better attainment of operational targets for the year and the establishment of a solid foundation for new rapid developments.

- Closely monitor market changes, proactively adjust products structure, explore new customer groups, continue to develop the market for products with high gross profit, effort for the market share of micro surface mount components, surface mount plastic-packaged diodes and special diodes products, and enhance stable growth in the sales of major businesses of the Group.
- Deepen the reform of the mechanism of internal operating system, fully unleash the proactiveness and creativity of each company, divisions and other entities, face the market, fully utilize its production capacity, promote efficiency, maximize satisfaction of customers' increasing product needs, maximize the Group's economic benefits.
- Accelerate organization and implementation of core projects of Galaxy Micro-Electronics such as enlargement of production scale, timely prepare for the recovery of the market, in order to establish a solid foundation for achieving the Group's strategic targets.

CORPORATE GOVERNANCE

The Company has been committed to establishing and maintaining high standards of corporate governance practices and procedures. The corporate governance principles of the Company emphasize effective internal control, high transparency and accountability to all shareholders. The Board comprises nine members including three executive Directors, three non-executive Directors and three independent non-executive Directors. The Board will continue to review its practices from time to time in order to improve the Group's corporate governance to meet internationally recognised best practices.

Director's Compliance with the Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules. Specific enquiries have been made to all Directors, who have confirmed that they have complied with the required standard set out in the Model Code.

Compliance with the Code on Corporate Governance Practices

For the six months ended 30 June 2009, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Listing Rules.

OTHER INFORMATION

Remuneration Committee

The Company has set up a remuneration committee in accordance with the Code. Its members are Mr. Yang Senmao, Ms. Wong Wai Ling, Mr. Ni Tongmu and Mr. Shu Mingding.

Interim Dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009.

Purchase, Sale or Redemption of Shares

Neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the shares in the Company during the period.

Share Option Scheme

For the period ended 30 June 2009, no options had been granted under the share option scheme operated by the Company and no options were outstanding, exercised, cancelled or lapsed during the period.

Material Acquisitions and Disposal of Subsidiaries and Associated Companies

During the period under review, there was no material acquisition and disposal of subsidiaries and associated companies by the Group.

Publication of Information on the Stock Exchange Website

The interim report of the Company, which will contain all the information required by the Listing Rules, will be sent to shareholders of the Company and published on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.galaxycn.com), respectively, in due course.

Audit Committee

The Company has established an audit committee. The audit committee comprises Ms. Wong Wai Ling, Mr. Ni Tongmu and Mr. Shu Mingding. The audit committee has discussed and reviewed the unaudited interim results for the six months ended 30 June 2009 and this announcement and discussed matters such as internal control and financial reporting matters of the Group.

By Order of the Board
Galaxy Semi-Conductor Holdings Limited
Yang Senmao
Chairman

Hong Kong, 7 September 2009

As at the date of this announcement, the executive Directors are Mr. Yang Senmao, Mr. Yue Lian and Mr. Xu Xiaoping; the non-executive Directors are Mr. Meng Quanda, Mr. Shiu Kit and Mr. Dong Renhan; and the independent non-executive Directors are Ms. Wong Wai Ling, Mr. Ni Tongmu and Mr. Shu Mingding.